



# INTERNAL AUDIT REPORT

## FOOD SERVICES



February 11, 2003

Roanoke City School Board  
Roanoke, VA

We have completed an audit of the food services department. Our audit was performed in accordance with generally accepted governmental auditing standards.

### **BACKGROUND:**

The school's Food Services department is responsible for providing approximately 2 million meals to Roanoke City School pupils annually. In order to accomplish this, the department employs approximately 100 persons in 29 production cafeterias. This includes administration, coordinators, cafeteria managers, and food service workers. Expenditures for food amounted to approximately \$1,993,000 in fiscal year 2002. Additionally, approximately \$188,000 was spent for disposable items and cleaning supplies. Lunch and breakfast meals are provided in accordance with the provisions of the National School Lunch Act and the Child Nutrition Act of 1966.

The department maintains three distinct types of inventory at each of its production cafeterias. Purchased food, purchased supplies, and United States Department of Agriculture (USDA) donated foods are each recorded and reported separately in a daily inventory book. Purchased food includes all food items that are purchased from commercial vendors. Purchased supplies include all supplies such as disposable plates and utensils, napkins, straws, foil, and cleaning chemicals. USDA donated foods includes all food items which are donated to the school system by the Department of Agriculture for use in the school lunch program. This typically includes various meat products, fresh fruits, and canned food items. USDA donated inventory must be reported to the State on a monthly basis.

Planning and management of inventory levels is partially centralized and partially decentralized. Most orders are completed by a centralized process initiated at the individual schools. The schools plan their inventory requirements by reviewing inventory on hand and determining what additional inventory will be required to prepare the meals planned on the school lunch menu. The schools then submit an order form to food services administration for any inventory required during the period. Food services administration then compiles all school order forms for each vendor and places the order. Vendors are selected via a bid process conducted by purchasing.

**PURPOSE:**

The purpose of this audit was to:

- Evaluate the controls over ordering, receiving, distributing, and storing cafeteria food and supplies.
- Evaluate the process for planning and managing inventory levels.
- Evaluate the security over inventory.

**SCOPE:**

The audit focused on the system of internal controls in place as of November 30, 2002. We tested transactions occurring between October 1, 2002 and December 31, 2002. The audit focused on cafeteria inventory and did not address the day-to-day operations of the cafeterias, or cash handling.

**METHODOLOGY**

We gained an understanding of the food services inventory process through observation and interviews with employees of the department. We visited central administration and three schools to document and evaluate the inventory process. Additionally, we reviewed relevant State and Federal laws that may have an impact on food services' inventory. This review included the National School Lunch Act, the Child Nutrition Act of 1966, and Virginia Board of Education regulations. Based on this information, we developed tests to evaluate the operation and effectiveness of relevant controls.

**RESULTS**

We reviewed the physical security of the school cafeterias and determined that inventory and supplies are generally well secured. The food services department uses forms prescribed by the USDA for inventory record keeping. These forms were designed by the USDA to adequately monitor inventory on a perpetual basis. Accordingly, our test work indicated that generally, inventory was accurately recorded on the inventory books. Additionally, the schools use resources provided by the USDA to aid in the production of meals, such as food guides and recipe books. Specific instances of areas in need of improvement are described below.

**Finding 01: Separation of Duties**

A good system of internal controls over inventory typically separates the duties of ordering inventory, receiving inventory, recording inventory, and physically verifying inventory. When there is insufficient separation of duties, the risk that inventory could be misappropriated increases significantly. We found that there is an insufficient separation of duties over the various inventory processes at the schools. A single person at the individual school cafeterias typically completes all of these duties.

**Recommendation 01: Separation of Duties**

We recommend that management review staffing at the school cafeterias to determine if certain duties over inventory management should be separated. Specifically, physical verification of inventory should not be conducted by the person primarily responsible for recording inventory. Staff limitations make it impractical to further separate ordering, receiving, and recording of inventory at the schools. Additionally, the person who orders inventory is well suited to receive inventory at the schools because this person is most familiar with what should be arriving.

**Management's Response 01: Separation of Duties**

Management agrees with the finding and will separate duties. Food Service coordinators will verify and reconcile monthly physical inventories with purchases and usage. Coordinators received instructions on January 13, 2003, to take effect with the January 31 inventory.

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**Finding 02: Receiving**

We found that internal controls over receiving inventory could be strengthened. There is insufficient documentation and verification that goods received were actually ordered by the cafeterias. In several instances (5 of 30 items tested or 17%), we noted that the school either received inventory that was different from what was ordered, or the school paid the wrong price for the inventory. Additionally, we noted that in 25 of 30 items received (83%), no expiration or received date was listed on the inventory. It is important to date stamp incoming inventory to ensure that aging inventory is used, and obsolescence is kept to a minimum.

**Recommendation 02: Receiving**

Procedures should be developed to ensure that inventory received matches the inventory ordered. This is a necessity to ensure that vendors are sending the schools the proper items and that the schools are paying the proper amounts for the items received. Additionally, staff should be required to mark the received date on inventory cases as received. This will aid in minimizing spoilage and ensure that older food stock is identified and used in a timely manner or discarded if necessary.

**Management's Response 02: Receiving**

Management agrees that inventory should be date-stamped at the time of delivery in order that oldest inventory is used first. Differences between the quantity ordered and the quantity received are normally the result of central management decisions to change order quantities. The change may be required because: 1) receipt of USDA commodities; 2) inclement weather requires order cancellation or reductions; 3) manager over ordered; and 4) operational requirements dictate food ordered be

transferred to another school location. Food service managers will check quantities received against quantity order<sup>4</sup>ed and provide written notification to the central office of discrepancies. The central office will reconcile discrepancies against the vendor invoice.

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### **Finding 03: Inventory Withdrawals**

Inventory withdrawals are not adequately documented at the cafeterias. We found that neither transfers between schools or inventory write-offs were adequately documented on inventory records. These types of transactions are unique in nature and should be clearly documented. Often, write-offs occur as an adjustment to the prior or following day's usage, as opposed to a separate entry appropriately labeled. We also noted that use per daily production reports was often inconsistent with inventory withdrawn on the daily inventory book. A variety of factors contribute to this inconsistency including differences in unit of measure, use of left over foods, partial case usage, and various operating procedures in place at the individual school cafeterias. These factors contribute to a significant gap in the accountability of the inventory.

### **Recommendation 03: Inventory Withdrawals**

In order for the perpetual inventory to be accurate and useful as an inventory management tool, procedures should be developed to ensure that withdrawals are properly supported and inventory records are updated in a timely manner. Adequate support for any inventory withdrawals on the daily inventory record must exist to minimize the risk that inventory records are manipulated to hide possible misappropriation of inventory. Write-offs for spoilage need to be plainly stated on the inventory records so that any possible inventory shrinkage is identifiable. Write-off adjustments for errors need to be clearly documented, and not "plugged" on the most convenient entry in the daily inventory record. Also, use per production reports should reconcile to the inventory books. Procedures must be developed so that school's production records consistently agree to the daily inventory reports. Management must decide how to handle partial case use of the various products and educate the cafeteria staff on the proper recording of these transactions. Further, management should require that all inventory transactions are recorded daily, and not weekly. If production records cannot be reconciled to inventory use, the risk of misappropriation is significantly increased.

### **Management's Response 03: Inventory Withdrawals**

Management agrees with the finding and all withdrawals/transfers will be documented utilizing invoice documents. Coordinators and couriers are only allowed to initiate transfers. Inventories will also document transfers, withdrawals, and write-offs. Coordinators received instructions to be in effect on January 13, 2003. Cafeteria managers will receive additional training regarding inventory usage to more accurately correlate with production records and to consistently account for foods used on

production records. Cafeteria managers received instructions at the regular cafeteria managers meeting on January 21, 2003.

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**Finding 04: Policies and Procedures**

There are no formal written policies and procedures regarding inventory. As a result, there are inconsistencies in record keeping and procedures from one cafeteria to the next. We noted that the same documents were often completed differently at the schools we visited. Also, certain unique items, such as bread and milk, were accounted for differently at the various schools. There were also inconsistencies in the methodologies used for receiving and stocking inventories at the schools.

**Recommendation 04: Policies and Procedures**

We recommend that management develop written policies and procedures for inventory management. Written policies and procedures are imperative to promoting consistency and accuracy in the production cafeterias. Promoting accuracy is a necessity due to the highly regulated nature of school food inventory. Policies and procedures would also be very useful for new staff, particularly in the cafeterias' high turnover environment.

**Management's Response 04: Policies and Procedures**

Management agrees and will develop formal written policies and procedures for inventory management. The Food Service Department follows accepted Department of Education and USDA procedures and forms regarding inventory management. Inventory management policies and procedures will be developed and implemented in accordance with USDA regulations by April 15, 2003.

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**CONCLUSION**

Based on the results of our audit work, we conclude that the internal controls in the food services department over ordering, receiving, distributing, and storing food and supplies inventory should be reviewed and strengthened by management. Controls over the planning and management of inventory levels as well as the physical security over the inventory appear to be adequate.

We would like to thank the food services department for their cooperation and assistance during the audit.

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